

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY AND EXHIBITS**  
**OF**

**M. ANTHONY JAMES, P.E.**

**JUNE 3, 2011**



**DOCKET NO. 2010-181-E**

**Application of Lockhart Power Company for  
Adjustment of Rates and Charges**

**DIRECT TESTIMONY OF M. ANTHONY JAMES, P.E.**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2010-181-E**

**IN RE: APPLICATION OF LOCKHART POWER COMPANY FOR  
ADJUSTMENT OF RATES AND CHARGES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Anthony James. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Associate Program Manager in the Electric Department of the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I hold a Bachelor's Degree in Engineering and a Master's Degree in Earth and Environmental Resources Management from the University of South Carolina. I am a Professional Engineer registered in the State of South Carolina, a member of the South Carolina Society of Professional Engineers and a member of the NARUC Staff Subcommittee on Electricity. I have been employed as a Project Engineer at environmental engineering consulting firms and at the South Carolina Department of Health and Environmental Control ("DHEC"). I joined DHEC in 1991 and was promoted from Project Engineer to Program Manager in 1995. As Program Manager in the Bureau of Water, I was responsible for coordinating DHEC's statewide wastewater compliance efforts. In 2004, I joined ORS as Senior Electric Specialist and was promoted to Associate Program Manager in 2009. As Associate Program Manager, my responsibilities include supporting senior management in reviewing base load plant applications, serving as the lead contact for

renewable energy activities as well as providing regulatory oversight of new nuclear construction projects. Collectively, I have more than twenty years of experience as an environmental engineer in regulatory compliance.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

**A.** Yes. I have testified before the Commission in general rate cases, fuel clause proceedings as well as a new nuclear deployment hearing. I have also been an ORS witness in proceedings regarding renewable energy standards.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to provide a summary of the Electric Department’s examination of Lockhart Power Company’s (“the Company” or “Lockhart”) Cost of Service Studies, rate design, depreciation rates, and revenue verification and distribution.

**Q. PLEASE DESCRIBE THE COST OF SERVICE STUDIES PERFORMED BY THE COMPANY.**

**A.** The Company performed four Cost of Service Studies for this case to include Historical, Pro Forma, Equal Rates of Return and Proposed Rates (“Studies”). The Historical Study is based on actual test year per book data; the Pro Forma Study results from adjustments to the per book data; the Equal Rates of Return Study comes from inclusion of the Pro Forma adjustments along with setting class revenues in order to yield equal rates of returns for each class of customer; and, the Proposed Rates Study incorporates the Pro Forma adjustments and the proposed revenues by customer class which the Company is requesting in this proceeding.

1           The Company uses the traditional “cost causation” methodology to develop its  
2       Studies which separates costs by functionalization, classification and allocation.  
3       Functionalization is the process of categorizing costs according to its function, which is  
4       either production, transmission or distribution. Classification is further dividing these costs  
5       into the type of service they provide – namely – demand, energy or customer. The  
6       allocation of these costs is based upon the demand, energy or customer costs incurred by the  
7       individual classes.

8           This methodology is identical to those presented in prior cases and approved by the  
9       Commission except for the change in the allocation of demand costs associated with  
10      purchased power.

11   **Q.    COULD YOU PLEASE ELABORATE ON THE CHANGE IN ALLOCATION OF**  
12   **DEMAND COSTS ASSOCIATED WITH PURCHASED POWER?**

13   **A.**       Yes. Historically, the Company allocated demand related production, transmission  
14      and purchased power costs using a twelve month coincident peak (“12 CP” or “Monthly  
15      CP”) method. Lockhart obtains the majority of its power from Duke Energy Carolinas  
16      (“Duke”) under a wholesale power purchase agreement. Previously, Duke’s demand billing  
17      component for Lockhart was based on Lockhart’s actual monthly coincident demand at the  
18      time of Duke’s monthly peak load. This previous billing methodology justified the use of  
19      the 12 CP as an appropriate allocation method for all of Lockhart’s demand related costs  
20      (production, transmission and purchased power). However, in January 2009, Lockhart  
21      entered into a new power purchase agreement with Duke under a rate schedule that utilizes a  
22      single annual coincident peak (“1 CP” or “Annual CP”). That is, Duke’s demand billing  
23      component for Lockhart is now based on Lockhart’s actual annual coincident demand at the

1 time of Duke's annual peak load. Accordingly, the Studies prepared for this proceeding  
2 allocate demand related costs associated with purchased power on a 1 CP basis while the  
3 demand related production and transmission continue to be allocated on a Monthly CP.  
4 Lockhart's annual coincident peak for 2009 was 68 MWs and occurred on August 10, 2009  
5 at 4:00 pm.

6 Also, the Studies appropriately separate the Company's revenues, expenses, and rate  
7 base items between jurisdictions and among classes in order to determine each one's  
8 contribution to its cost of service. ORS has reviewed these Studies and found them to be  
9 reasonably developed and appropriate for use in this proceeding.

10 **Q. PLEASE EXPLAIN THE RATE DESIGN UTILIZED BY THE COMPANY IN ITS**  
11 **PROPOSED TARIFFS.**

12 **A.** The basic rate designs of the proposed tariffs remain unchanged from the structure  
13 previously approved by the Commission. The Company proposes to revise its Schedule O.  
14 The revisions are necessary since the tariff no longer solely addresses purchased power. In  
15 addition to purchased power costs, the tariff now incorporates costs related to fuel and  
16 credits for off-system sales associated with the Wellford landfill gas project. As a result, the  
17 name has also been changed from the *Purchased Power Adjustment Clause* to the *Power*  
18 *Adjustment Clause*.

19 The Company also proposes to increase the Basic Facilities Charge ("BFC") for  
20 residential customer tariffs from \$6.50 to \$7.25. ORS recommends any increase in the BFC  
21 charge for residential customers be limited to \$0.50 or less. This recommendation lessens  
22 the impact on low-use customers. It is consistent with ORS's recommendation and the  
23 Commission's decision in Docket No. 2009-489-E.

**Q. DID ORS REVIEW THE DEPRECIATION RATES UTILIZED BY THE COMPANY IN THIS CASE?**

**A.** Yes. ORS confirmed that the Company used the depreciation rates previously approved by the Commission to determine the appropriate cost levels for depreciation expense in its current filing. However, the four 1.8 MW City of Union peaking diesel generators and the 1.6 MW Wellford landfill gas generator were added to Lockhart's depreciation rates in this filing. Based on a 20-year life expectancy, a rate of 5.0% was used for these generators and is the same rate that was used for Lockhart's Pacolet diesel generators previously approved by the Commission.

The Company reports to ORS that this depreciation rate was selected because the generators proposed in this filing are very similar to the Pacolet diesel generators. However, the Wellford landfill gas generator utilizes methane gas as a fuel source unlike the Pacolet generators which utilize diesel fuel. ORS inquired as to any potential difference in the life expectancy of a generator which utilizes methane gas as a fuel source as compared to a generator which utilizes diesel fuel. The Company further reports to ORS that its engineering analysis determined that the life expectancies of their generators are not affected by the use of diesel fuel or methane gas as a primary fuel source.

ORS finds the 5.0% depreciation rate and the corresponding 20-year life expectancy to be reasonable and appropriate for these assets given the generators proposed in this Docket are of the same manufacture, size and vintage as the Pacolet diesel generators.

**Q. PLEASE DISCUSS THE REVENUE REQUIREMENTS AND HOW THEY WERE DISTRIBUTED TO EACH CUSTOMER CLASS.**

1     **A.**           The Pro Forma Cost of Service Study was utilized to determine the proper cost  
2           allocation for each class; then, revenues were applied to bring the class returns more in line  
3           with the overall return requested. This is an appropriate and equitable method of allocating  
4           revenue requirements and is accepted regulatory practice.

5           Based on ORS's audit adjustments and a 12% return on equity, ORS recommends a  
6           reduction of Lockhart's proposed revenue increase from \$337,676 to \$287,959 (a reduction  
7           of approximately \$50,000 or 15%). Exhibit MAJ-1 provides a comparison to show how  
8           these revenue increases, which ultimately impact rate payers, were calculated. ORS's  
9           proposed revenue increases by customer class and rate schedule are shown in Exhibit MAJ-  
10          2. ORS's proposed revenue increase of \$287,959 was allocated to each customer class and  
11          rate schedule in like fashion as provided in the Company's Proposed Cost of Service Study.

12          Also, as shown in Exhibit MAJ-2, ORS's recommendations reduce: the residential  
13          rate increase from 3.20% to 2.73%; the commercial rate increase from 4.48% to 3.82%; the  
14          street lighting rate increase from 4.49% to 3.83%; and, the outdoor lighting rate increase  
15          from 4.98% to 4.25%. As in the Company's Application, ORS did not apply a rate increase  
16          to the industrial service customer class.

17          As a result, the approximate monthly bill increase for residential customers using  
18          1,000 kWhs is \$2.46 as opposed to the Company's requested increase of \$3.23.

19     **Q.       DOES THIS CONCLUDE YOUR TESTIMONY?**

20     **A.**           Yes, it does.

# Rate Revenue Increase

## Lockhart Power Company

Test Year Ending December 31, 2009

Docket No. 2010-181-E

Line No.	Retail Electric	Lockhart's Application	ORS Adjusted
1	Proposed Rate Revenue Increase	1,599,713 <sup>1</sup>	1,605,208 <sup>2</sup>
2	Rate Revenues as Adjusted	12,185,820 <sup>3</sup>	12,130,608 <sup>4</sup>
3	Adjusted Revenues After Proposed Increase [L1 + L2]	13,785,533	13,735,816
4	Subtract Historical Rate Revenue EXCLUDING Monarch	13,447,857 <sup>5</sup>	13,447,857 <sup>5</sup>
5	<b>Revenue Impact to Ratepayers [L3 - L4]</b>	<b>337,676</b>	<b>287,959</b>
6	Rates of Return	12.50%	12.00%

<sup>1</sup> Per Company's Application Exhibit A3-1 (Column 6, Line 1)

<sup>2</sup> Per ORS Witness Scott's Exhibit SGS-1 (Column 7, Rate Revenue Line)

<sup>3</sup> Per Company's Application Exhibit A3-1 (Column 5, Line 1)

<sup>4</sup> Per ORS Witness Scott's Exhibit SGS-1 (Column 6, Rate Revenue Line)

<sup>5</sup> Per Company's Application Exhibit A4 (Column 1, Line 9)



**ORS Proposed Revenues**  
**Lockhart Power Company**  
 Test Year Ending December 31, 2009  
 Docket No. 2010-181-E

Exhibit MAJ-2

**Revenues: \$287,959**  
**ROE: 12.00%**

<b>Lockhart Power Company</b>				<b>ORS</b>		
<b>Lockhart Retail Revenue</b>	<b>Total Present Revenues</b>	<b>Proposed Revenues</b>	<b>Proposed Increase <sup>1</sup></b>	<b>Proposed Percent Increase</b>	<b>Proposed Revenues</b>	<b>Proposed Increase Percent Increase</b>
<b><u>Residential Service</u></b>						
R	5,382,125	5,574,232	192,107	3.57%	5,545,948	163,822 3.04%
RA	2,095,126	2,142,446	47,320	2.26%	2,135,478	40,353 1.93%
<b>Total Residential Service</b>	<b>\$7,477,251</b>	<b>\$7,716,678</b>	<b>\$239,427</b>	<b>3.20%</b>	<b>\$7,681,426</b>	<b>\$204,175 2.73%</b>
<b><u>Commercial</u></b>						
C3	1,447,637	1,524,276	76,639	5.29%	1,512,992	65,355 4.51%
GA	292,303	293,596	1,293	0.44%	293,406	1,103 0.38%
<b>Total General Service</b>	<b>\$1,739,940</b>	<b>\$1,817,872</b>	<b>\$77,932</b>	<b>4.48%</b>	<b>\$1,806,398</b>	<b>\$66,458 3.82%</b>
<b><u>Industrial Service</u></b>						
I	3,818,233	3,818,233	0	0	3,818,233	0 0.00%
<b>Total Industrial Service</b>	<b>\$3,818,233</b>	<b>\$3,818,233</b>	<b>\$0</b>	<b>0%</b>	<b>\$3,818,233</b>	<b>\$0 0.00%</b>
<b><u>Street Lighting</u></b>						
SL	46,646	48,742	2,096	4.49%	48,433	1,787 3.83%
<b>Street Lighting Total</b>	<b>\$46,646</b>	<b>\$48,742</b>	<b>\$2,096</b>	<b>4.49%</b>	<b>\$48,433</b>	<b>\$1,787 3.83%</b>
<b><u>Outdoor Lighting</u></b>						
OL	365,787	384,009	18,222	4.98%	381,326	15,539 4.25%
<b>Outdoor Lighting Total</b>	<b>\$365,787</b>	<b>\$384,009</b>	<b>\$18,222</b>	<b>4.98%</b>	<b>\$381,326</b>	<b>\$15,539 4.25%</b>
<b>Total Retail</b>	<b>\$13,447,857</b>	<b>\$13,785,534</b>	<b>\$337,676</b>	<b>2.51%</b>	<b>\$13,735,816</b>	<b>\$287,959 2.14%</b>

<sup>1</sup> Numbers may not sum to total due to rounding

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2010-181-E**

IN RE:

**Application of Lockhart Power Company  
for Adjustment of Rates and Charges**

)  
) **CERTIFICATE OF**  
) **SERVICE**  
)  
)

This is to certify that I, Pamela J. McMullan, have this date served one (1) copy of the **DIRECT TESTIMONY OF LEIGH C. FORD AND DIRECT TESTIMONY AND EXHIBITS OF SHARON G. SCOTT AND M. ANTHONY JAMES** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

M. John Bowen, Esquire  
Margaret M. Fox, Esquire  
McNair Law Firm, P.A.  
Post Office Box 11390  
Columbia, SC 29211

  
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Pamela J. McMullan

June 3, 2011  
Columbia, South Carolina